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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, CHAIRMAN
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP
BRENDA BURNS

Arizona Corporation Commission
DOCKETED
MAR 21 2012
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IN THE MATTER OF THE APPLICATION OF INDIADA WATER COMPANY, INC., FOR APPROVAL OF A PERMANENT INCREASE IN ITS WATER RATES.	DOCKET NO. W-02031A-10-0168
IN THE MATTER OF THE APPLICATION OF ANTELOPE RUN WATER COMPANY FOR APPROVAL OF A PERMANENT INCREASE IN ITS WATER RATES.	DOCKET NO. W-02327A-10-0169
IN THE MATTER OF THE APPLICATION OF BOB B. WATKINS DBA EAST SLOPE WATER COMPANY FOR APPROVAL OF ITS PERMANENT INCREASE IN ITS WATER RATES.	DOCKET NO. W-01906A-10-0170
IN THE MATTER OF THE APPLICATION OF BOB B. WATKINS DBA EAST SLOPE WATER COMPANY, INDIADA WATER COMPANY, INC., AND ANTELOPE RUN WATER COMPANY FOR APPROVAL OF A TRANSFER OF ASSETS AND	DOCKET NO. W-01906A-10-0171 DOCKET NO. W-02031A-10-0171 DOCKET NO. W-02327A-10-0171

CERTIFICATES OF CONVENIENCE AND NECESSITY.	
IN THE MATTER OF THE APPLICATION OF BOB B. WATKINS DBA EAST SLOPE WATER COMPANY FOR AUTHORITY TO INCUR LONG-TERM DEBT.	DOCKET NO. W-01906A-10-0183
IN THE MATTER OF THE APPLICATION OF INDIADA WATER COMPANY, INC. FOR AUTHORITY TO INCUR LONG-TERM DEBT.	DOCKET NO. W-02031A-10-0184
IN THE MATTER OF THE APPLICATION OF ANTELOPE RUN WATER COMPANY FOR AUTHORITY TO INCUR LONG-TERM DEBT.	DOCKET NO. W-02327A-10-0185 **COMPANIES' COMMENTS RE RECOMMENDED OPINION AND ORDER**

The East Slope Water Company, Indiada Water Company, and Antelope Run Water Company ("Companies"), hereby submit comments regarding the Recommended Opinion and Order ("ROO") in this matter.

As one might expect, the Companies agree with some ROO provisions, and disagree with others. For example, the Companies support the ROO approving the consolidation of the companies into one entity. In contrast, the Companies disagree with the deduction of rate base by the amount held in customer security deposits. But at this point in the proceeding, the Companies are requesting that the Arizona Corporation Commission ("Commission") focus on one critical issue – the WIFA Debt Service Reserve Fund ("Debt Reserve").

The ROO adopts Staff's position that a WIFA surcharge should be implemented to pay the loan principal and interest, but excludes the Debt Reserve, which amounts to 20% of the principal and interest payment. As proposed by Staff, the Companies have to make this Debt Reserve payment of $38,852 from revenues generated by its rates, yet Staff did not adjust the rates to account for this additional expenditure. Consequently, the Companies will continue to be in financial distress and requiring the Companies to pay the Debt Reserve by using its cash flow functions as a disincentive for the Companies to borrow money to make necessary improvements.

As the ROO concisely points out on page 26, ¶ 127, without the Debt Reserve, the Companies projected cash flow is $61,835. But the Debt Reserve payment reduces the Companies cash flow to $22,982. In other words, the Companies serving 1,000 connections, is expected to meet all of the cost increases since 2009 and all unexpected repairs and expenses with less than $23,000 per year. Put another way, each customer will pay less than $2.00 per month for any an all unexpected major system repairs, cost increases, and unforeseen events.

Staff justifies its position by claiming that the Debt Reserve is a "savings account" that benefits the Companies. *See* ROO at ¶ 125. But this is simply not true. The Reserve Fund is held by WIFA for WIFA. As the end of the 20-year loan term approaches, WIFA applies the funds held in reserve to the principal and interest. If the loan term is effectively reduced from 19 to 20 years, then it is the customers who will benefit because the WIFA surcharge will end. But the Companies will not get any money back.

This is WIFA's savings account, controlled by WIFA, not the Companies. Thus, argument that the Debt Reserve is a "savings account" benefitting the Companies is not accurate. Consequently, the position that the Companies should be forced to pay the Debt Reserve using cash flow otherwise available for unexpected major system repairs, cost increases, and unforeseen events will continue the Companies' financial issues.

Finally, it is important to note that the Companies' owners are taking on a huge financial liability with the proposed loan. Yet, realistically, if the ROO is adopted, not only will the Companies not earn a dime, the owners will not even get back the money they have invested in the Companies already. The Companies' cash flow from depreciation, which is the return <u>of</u> their investment, will be used to pay the Debt Reserve, which again will not be returned to the Companies.

What the Companies seek is simple – include the Debt Reserve in the WIFA surcharge. This will allow the Companies to use its cash flow for unexpected major system repairs, cost increases, and unforeseen events.

RESPECTFULLY SUBMITTED this 21st day of March, 2012.

MOYES SELLERS & HENDRICKS LTD.

Steve Wene

Steve Wene
Attorneys for the Companies

Original and 13 copies of the foregoing filed this 21st day of March, 2012, with:

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